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March 9, 2007
Arizona Corporation Commission

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Richard L. Sallquist
Sallquist, Drummond & O'Connor, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282

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RE: Keaton Development Company – Application for Extension of its Certificate of Convenience and Necessity (CC&N) Docket No. W-02169A-07-0098
INSUFFICIENCY LETTER

Dear Mr. Sallquist:

In reference to the above mentioned application filed on February 13, 2007, this letter is to inform you that the application has not met the sufficiency requirements as outlined in the Arizona Administrative Code. The deficiencies are:

1. Please provide the requests for service from the property owners in the extension area requesting service from the Company.
2. Please provide a map of the requested service territory with an identification of the respective property owners requesting service.
3. Please submit a drinking water design report which clarifies how water will be provided to the proposed CC&N extension area.

The report should identify existing and future sources, the capacities of existing sources, the estimated capacities of future sources and any existing demand on the present water sources.

The report should include the estimated water demand from a typical dwelling unit, the estimated demand from the proposed CC&N area.

The report should identify the location of future and existing transmission mains and include the timing or construction phasing of facilities.

The design report should describe water quality and address any water quality problems with the existing and future sources of water (as an example, will extra treatment costs arise in order to meet existing or future maximum contaminant levels for arsenic nitrates

or fluorides in the drinking water and if so, how does the applicant plan to fund the necessary treatment plant additions).

4. Exhibit H, the copy of the Sunshine Acres Subdivision's Application for a Water Report to the Arizona Department of Water Resources ("ADWR") indicates the applicant is seeking a **Determination of Inadequate Water Supply**. Please verify the correctness of this statement.
5. Please provide any other information which will allow the Commission to analyze and conclude that the company has sufficient water production capacity, or can develop enough drinking water capacity to service the existing and future demands from the proposed CC&N area.
6. Please provide Arizona Department of Environmental Quality (ADEQ) Compliance Report for PWS Number 15-029.
7. Please provide a set of design plans for the proposed water facilities. The plan should include-- the proposed water source, distribution facilities and show the site map of the proposed water treatment plant. If final design plans are not available, please provide preliminary plans.
8. According to the Application, the total estimated water construction cost to serve the proposed CC&N extension is \$150,600. Please provide a detailed breakdown of the cost. The cost should include a description of the major components with the cost of the component (i.e., wells, number and size of storage tanks, etc.). The method of financing for the major components should be described in as much detail as possible.
9. Please provide a copy of the Water Use Data Sheet for the last 13 months for the Company.
10. Please provide a copy of the City/Town franchise agreement that includes the proposed extension area. If the proposed extension area is outside the corporate city/town limits, please provide a copy of the County franchise agreement that includes the proposed extension area. If the franchise agreement(s) has not been issued, please inform Staff of the status of the application for the franchise agreement.
11. Please provide a copy of the Company's Balance Sheet and Income Statement for the year ending December 31, 2006.
12. How many acres is the requested area?
13. Who will be the wastewater provider for the requested area?
14. Will any artificial lakes, golf courses, ornamental structures, open spaces, and any other aesthetic water features be built in the requested area? If so, does the Company plan to use groundwater at the beginning of the project for artificial lakes, golf courses,

ornamental structures, open spaces, and any other aesthetic water features, and if so, for how long? Please explain in detail.

15. At what point in time does the Company intend to utilize effluent for artificial lakes, golf courses, ornamental structures, open spaces, and any other aesthetic water features? Please explain in detail. Please be sure to include the number of houses that would have to be built in order to generate enough effluent for such uses.

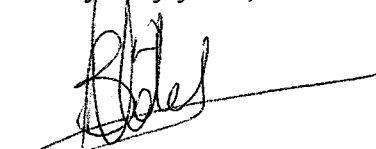
Staff would like to use this opportunity to bring the following to your attention:

- Pursuant to the Arizona Administrative Code ("A.A.C.") R-14-2-411(C), upon meeting sufficiency requirements, the Commission has 150 calendar days for its substantive review. This includes conducting a hearing and preparing Opinion and Order to present to the Commission at an Open Meeting; and
- Pursuant to A.A.C. R14-2-411(C)(3), Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.

Please file your response to this Insufficiency Letter with Docket Control.

If you have any questions concerning this matter, please do not hesitate to contact me at 602-542-0840 or Jian Liu at 602-542-7276.

Very truly yours,



Blessing N. Chukwu
Executive Consultant III

BNC

cc: Docket Control
Del Smith
Lyn Farmer
Brian Bozzo
Vicki Wallace